United Nations DP/2001/CRP.18

Executive Board of the United Nations Development Programme and of the United Nations Population Fund

Distr.: General
17 August 2001

Original: English

Second regular session 2001
10-14 September 2001, New York
Item 3 of the provisional agenda
Financial, budgetary and administrative matters

Amendment to the UNDP financial rules

The Administrator would like to inform the members of the Executive Board of the proposed changes to the UNDP financial rules. These amendments are prepared in accordance with UNDP Financial Regulation 2.02(b).

01-51687 (E) 230801

Introduction

1. In accordance with the UNDP financial Regulation 2.02(b), the Administrator wishes to inform the members of the Executive Board of the proposed amendments to certain UNDP Financial Rules. These amendments include the following: (a) Rule 116.04 pertaining to the frequency of UNDP programme audits; and (b) Rule 125.11 pertaining to guarantee facility.

I. Amendment pertaining to the frequency of UNDP programme audits (Rule 116.04)

2. The current UNDP Financial Regulation 16.04, which reads as follows, specifies that UNDP programme activities are to be audited at least once in their lifetime.

Current Regulation 16.04

The Administrator shall ensure that, except for organizations of the United Nations system, executing entities shall require auditors to follow the audit principles and procedures prescribed for the United Nations in respect of resources obtained from or through UNDP and shall ensure that each UNDP programme activity is audited at least once in its lifetime, or as otherwise required pursuant to the relevant agreements governing such programme activity.

3. The current Rule 116.04, which reads as follows, explicitly states that such audits are to be conducted biennially.

Current Rule 116.04

The Associate Administrator and the Director of the Office for Audit and Performance Review shall be responsible for establishing the criteria determining UNDP programme activities executed by agents other than organizations within the United Nations system, which are to be audited biennially, and for informing the Board of Auditors accordingly.

4. As noted by the Board of Auditors in its report for the biennium ending 31 December 1999 (A/55/5/Add.1), UNDP in the past biennium had difficulties in achieving sufficient coverage on audits for nationally executed projects, and in providing adequate audit assurance to the Board of Auditors. In order to improve the quality of audit coverage, the Administrator proposes to amend Rule 116.04 so that those projects that exceed annual expenditure of $100 000 are audited annually instead of biennially. The amended Rule 116.04 will read as follows:

Amended Rule 116.04

The Associate Administrator and the Director of the Office for Audit and Performance Review shall be responsible for establishing the criteria determining UNDP programme activities executed by agents other than organizations within the United Nations system, which are to be audited annually for those projects that exceed annual expenditure of $100 000, and shall inform the Board of Auditors accordingly.

II. Amendment pertaining to the guarantee facility (Rule 125.11)

5. The current Financial Regulation 25.01, which reads as follows, authorizes the Administrator to take necessary steps to facilitate smooth cash management through sub-paragraph (a).

Current Regulation 25.01

The Administrator, under the authority delegated by the Secretary-General as custodian of all funds, is responsible and accountable for the effective and efficient management of cash resources in UNDP custody.

a. Cash management includes all actions necessary for receipt, deposit, advance, investment and disbursement of cash, including the designation of banks and opening of bank accounts.

b. The Administrator may delegate authority, as appropriate, to staff for such cash management.

6. This authority enables the Administrator to issue financial guarantees, or to commission commercial banking instruments designed to provide financial guarantees to UNDP vendors and/or suppliers.

7. In order to provide a more explicit authority for the issuance of financial guarantees, the Administrator proposes to amend Financial Rule 125.11, to incorporate a new sub-paragraph (c). The current Rule 123.11 and the amended Rule 125.11 are as follows:

Current Rule 125.11

Advance Payments

a. Except where normal commercial practice or the interests of UNDP so require, no contract shall be made on behalf of UNDP which requires a payment or payments on account in advance of the delivery of products or the performance of services. Whenever an advance payment is agreed to in accordance with UNDP administrative instructions issued by the Comptroller, the reason therefore shall be recorded.

b. Progress payments may be permitted pursuant to normal commercial practice or in the interests of UNDP, in accordance with administrative instructions issued by the Comptroller.

Amended Rule 125.11

Advance Payments

a. Except where normal commercial practice or the interests of UNDP so require, no contract shall be made on behalf of UNDP which requires a payment or payments on account in advance of the delivery of products or the performance of services. Whenever an advance payment is agreed to in accordance with UNDP administrative instructions issued by the Comptroller, the reason therefore shall be recorded.

b. Progress payments may be permitted pursuant to normal commercial practice or in the interests of UNDP, in accordance with administrative instructions issued by the Comptroller.

c. *The Treasurer may establish such guarantee facilities as are necessary to facilitate the financial operations of UNDP in the commercial marketplace. Such guarantees may take the form of bank issued guarantees and/or bank issued commercial letters of credit, with the proviso that there be no borrowing of funds by UNDP in connection with such issuance.*

8. A financial guarantee may be defined as: "an agreement, involving the promise by one party (the guarantor) to fulfil the obligation of a person owing a debt if that person fails to perform". A "letter of credit" may be defined as "an instrument issued by a bank, guaranteeing payments on behalf of its customer to a beneficiary for a stated period of time, and when certain conditions are met". In the normal course of business, UNDP enters into various transactions that require that a guarantee be provided to a third party in order for the transaction to be completed. For example, UNDP places an order for project supplies with a vendor who requires a guarantee from a bank before goods are shipped. In such a case, UNDP may request its bank to issue a commercial letter of credit in favour of the supplier. A second example may be for a micro-capital project where the project engages with a local bank to effect micro-capital loans to local communities. The bank provides its own capital for the loan but requires a guarantee from the UNDP bank that any defaulted loans will be paid by UNDP under terms of the project agreement.

9. When a supplier or service provider draws against a bank-issued guarantee facility under the terms of the facility, the bank immediately effects payment and charges the UNDP account. In order to ensure that the bank will not de facto be lending funds to UNDP in such transactions, UNDP sets aside interest-bearing deposits with the bank sufficient to cover the totality of outstanding liabilities under guarantee agreements. In this manner, the bank can be certain that funds are indeed available to cover the guarantees issued; and thus there is no need for the bank to advance funds on behalf of UNDP against interest payments.

10. The above examples are common instances of the need to engage in financial guarantees in the course of standard business transactions. If UNDP could not issue guarantees through its banks, in many cases it would have either to forego beneficial business opportunities or effect advances of funds to suppliers prior to the delivery of goods and services. The proposed revision is recommended for purposes of transparency and is in the best interests of UNDP.